

## The role of insurance market activity in boosting the growth of the national economic system

### دور نشاط سوق التأمين في تعزيز نمو الاقتصاد الوطني

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Received: 07/10/2019; Accepted: 16/11/2019

**Abstract:** This article aims to ascertain out the extent to which insurance market activity contributes to the development of the internal economy, given its dynamic part in financing the economic system, as it is an important local source of financing in reviving savings and investment rates, which are the most important or essential components of improving the functioning of economic growth. This is by using the economic variables adopted to explain the role of insurance in the economic system.

**Keywords:** Insurance Market, National Economic, Economic growth, Saving, Investment.

**ملخص:** يهدف هذا المقال إلى معرفة مدى مساهمة نشاط سوق التأمين في نمو الاقتصاد الوطني، بالنظر إلى دوره الفعال في تمويل الاقتصاد، إذ يعتبر مصدر تمويل محلي مهم في إنعاش معدلات الادخار والاستثمار اللذان يمثلان أهم العناصر الضرورية أو الأساسية لتحسين أداء النمو الاقتصادي، ويكون هذا باستخدام المتغيرات الاقتصادية المعتمدة لتفسير دور التأمين في الاقتصاد.

**الكلمات المفتاحية:** سوق التأمين، الاقتصاد الوطني، النمو الاقتصادي، الادخار، الاستثمار.

**Résumé:** Cet article vise à savoir l'étendue de la contribution du marché de l'assurance à la croissance de l'économie nationale, compte tenue de son rôle efficace dans le financement de l'économie, car il s'agit d'une importante source intérieure et de financement pour relancer les taux d'épargne et d'investissement, qui sont les éléments les plus importants nécessaires pour améliorer la performance de la croissance économique, et cela se fait en utilisant les variables économiques adoptées pour expliquer le rôle de l'assurance dans l'économie.

**Mots clés :** marché d'assurance, économie nationale, croissance économique, épargne, investissement

### 1. Introduction :

Insight of the recent high risks and uncertainty, the economic importance of the insurance market place has gone up, and it has been viewed as a central part of the growth of the financial system and in the development of the economic system as a whole. UNCTAD for the insurance and reinsurance market, that the national insurance and reinsurance market is the main feature of economic growth.

This study helps to understand the relationship of insurance to the economy and to know the extent to which the insurance market activity contributes to the national economy and this is compared to the leading insurance countries in the world, and therefore the basic problem of the subject can be raised as follows:

## **How much insurance market activity contributes to the national economy?**

To resolve this problem, we carved up this article into two primary topics:

- The relationship of insurance to the economy
- Analysis of the economic role of insurance in Algeria

In order to familiarize us with the aspects of our study, we used the "inference approach" in the theoretical aspect of its description and analysis tool, in order to explain the various concepts governing the work of the study variables, while on the applied side we used the "inductive approach" to provide an analysis and interpretation of the results obtained.

### **2. The relationship of insurance to the economy**

This element seeks to see if insurance market activity can encourage economic growth, and this is by highlighting its financing role in the economy.

#### **2.1. Insurance and economic growth**

The activity of the insurance market contributes to the growth of the economy, and allows many risks to be managed efficiently and mobilize salvage domestic savings [Marco Arena,2008,p921], and was officially recognized in the Trade and Development Matrix at its first session in 1964, the United Nations Conference on Trade and Development (UNCTAD for the insurance and reinsurance market) Along with the other National insurance and reinsurance is the central character of economic development[J.François Outreville,1990,p487] The insurance activity is based on receiving premiums from the insured, and these premiums must be allowed to meet the normal level of compensation if they are achieved. Nevertheless, in practice, the risk in the future may be unlimited, and the insured at the time of the contract is obliged to compensate for the length of the contract, as the premium must be covered. All costs and expenses incurred by the company (overhead coverage, security reserve configuration, capital owners' bonus, and insurance brokers).

For a particular fiscal year, there is a relationship of the type:  
The United States is the only country in the world that has been able to provide the world with the right to life.

$$Q < > Ca + Co + S + Pt$$

So that:

**Q** = net premium,

**S** = amount of compensation actually paid by the sector

The government's policy of "re-employed" is to be

**Co** = Bonuses paid by the company to brokers

**Pt** = Change in the value of financial allocations from one fiscal year to another

If the first party is larger than the second part is, the company achieves a net profit from the subscription. Therefore, the insurance companies face their future obligations in the form of technical allocations (in the company's liabilities). Moreover, to meet these obligations the insurance companies will go to the transfers and immovable investments (in the company's assets), which generates financial returns.

If the opposite is the first party smaller than the second part is, it means that total financial resources are not sufficient to achieve accounting balance and result in operating loss. Consequently, technical allocations related to insurance activity play two roles, the role of compensation and the role of financing. Therefore, all insurance laws in the world require insurance companies to show in their budgets reserves and provisions for insurance operations. [Mr. Ali, Qisal, 2014]

## **2.2. The financing role of insurance activity in the economy**

Insurance is an important local source of financing in reviving savings and investment rates, which are essential or essential elements for improving the performance of economic growth.

### **2.2.1. Domestic savings mobilization**

We have also noted that the legislation was aimed at ensuring that the company is able to meet its obligations specified in its contract with the insured, where insurance companies in any economy are subject to state monitoring and evaluation. In Algeria, the legislative texts define the structure of financial employment, which determines the employment rates to be respected, forcing the insurance company to employ at least 50% of its savings exclusively to purchase public treasury bonds. [National Insurance Council,2015,p26], In other words, the higher the demand for insurance, the more the local savings are mobilized, once the insurance contract is signed between the policyholder and the insurance company, the latter is obliged to compensate for the length of the contract, allocating part of its inputs as technical allocations to meet its future obligations. This represents the savings of insurance companies.

### **2.2.2. Reviving investment rates**

The bulk of the proceeds from general insurance premiums are directed to short investments. because the policy usually covers one year (investment in the capital of other companies, gold and what it agreed, real estate values and state values represented in (land and buildings). in addition to term deposits and this by depositing their funds with banks commercial in order to take advantage of the interest rates proposed by banks to attract deposits). In life insurance, which is long-term insurance, the premiums collected are directed to long-term investments consisting of a variety of ordinary shares, bonds, and securities. [Munir Ibrahim Hindi, without publications years, p455]

## **2.3. Economic variables adopted to explain the role of insurance in the economy**

### **2.3.1. The traditional measurement of the economic importance of insurance**

Two measures are usually used to show the economic importance of insurance in the local economy:

- **Insurance intensity**

This indicator links the production of the insurance sector with the population, reflecting the share of each individual in insurance production, reflecting the insurance culture in society, and calculating as follows [Osama Azmi Salam, Shaqiri Nouri Musa,2007,p134]

$$\text{Insurance intensity} = \text{insurance production} / \text{population}$$

It is a calculation of the size of insurance premiums per capita in the given country given in dollars, allows an accurate approach to know the extent of insurance among members of society. In addition, indicates how much each individual spends on the average insurance. But currency

fluctuations affect comparisons between countries, and the number of premiums per capita can be converted One using PPP values instead of the dollar exchange rate to be more significant

- **Insurance penetration rate**

This indicator reflects a ratio between insurance production (direct insurance premiums) and gross domestic product (GDP), reflecting the share of insurance products in the total raw output of the state.[J.François Outreville,2012,p65].

The higher the demand for insurance, the greater the insurance density, the greater the contribution of insurance to GDP, which is reflected in the degree, value and period of compensation.

This indicator is not affected by currency fluctuations, yet it ignores the differences between countries such as product design level, product prices, and other market characteristics. [Osama Azmi Salam, Shaqiri Nouri Musa,2007,134]

### **2.3.2. Measuring the financial role of insurance**

It has also been mentioned that the activity of the insurance market contributes to the growth of the economy, and was considered the main feature of economic growth, due to the relationship between economic growth and the development of the financial system, which is mainly due to the work of Patrick 1966, [J.François outreville,2012,p69]. In addition, the development of the financial sector is generally known as the growth of real size. For the financial sector to GDP, expressed for M2/PIB, M2 is often taken as a proper measure of the size of the financial sector in developing countries given the dominance of the banking sector. In addition, many studies confirm the importance of the relationship between the development of the financial sector and growth economically. The purpose of this element is not to show this relationship, but to show the relationship between the development of insurance and the development of the financial system.

J.f. Outreville suggested that the m2 variant could be included in studies focusing on the role of insurance as a financial intermediary, and found a positive relationship between the development of the insurance system and financial development. Through a standard model in which he studied the relationship between insurance penetration rate and financial development, whereby when m2/pib ratio increases. The demand for insurance increases significantly and this is under the following assumptions:

The demand for insurance is an increasing function of income, the real amount of insurance required is a decreasing price, and there is a positive relationship between the development of the financial system and the ability of the individual and/or his desire to insure. [J.François Outreville,1990,p490-491]

### **2.3.3. The role of insurance in creating added value**

At the macroeconomic level, the insurance sector contributes to the formation of national income by generating benefit, based on premiums minus the liabilities incurred, this value is allocated to pay salaries, commissions, dividends, and indirect taxes, and the balance represents the total profit or loss of the operation Insurance.

To measure the contribution of insurance companies to the financing of the economy, it is sufficient to compare the increase in technical reserves or insurance sector assets with the financial requirements of the economy, but these data generally do not exist. There is a lack of quantitative evidence on this subject in both developed and developing countries [J.François outreville 2002,p70-72].

### **3. Analysis of the economic role of insurance in Algeria**

This element aims to determine the extent to which the activity of the insurance market contributes to the growth of the national economy using the most important variables adopted to explain the role of insurance in the economy. As well as compare, with the leading countries in the insurance sector in the world, and this will be during the period 2013-2015.

#### **3.1. Insurance and savings and investment workers in Algeria**

The law in Algeria requires insurance companies to make investments mainly on four levels: public treasury, public and private banks, equity investment (buying securities) in companies, and buying real estate. As mentioned above, this law obliges the insurance company to employ at least 50% of its savings exclusively to purchase public treasury bonds [National Insurance Council,2015,p26] Pursuant to Executive Order No. 13\_114 of 28 March 2013 relating to the regulated obligations of insurance companies, according to Article II (Executive Order No. 13\_114,no p) of this decree: "Insurance companies must register in their balance sheet liabilities the regulated liabilities of regulated balances and technical balances. In accordance with the conditions set by this decree]."

The reform, insurance companies must form and register in their balance sheets various elements of the credits (guarantee balance, natural disaster risk balance, and mandatory supplementary balance of losses to be paid).

Technical balances are capital allocated for the total repayment of obligations made as a case, to the insured, the beneficiaries of insurance contracts and insurance companies that have waived shares in the so-called "waiver companies" reinsurance].

In accordance with the double-entry rule of accounting, stipulates that regulated obligations, including technical and regulated balances, shall be provided on the side of the insurance company's budget liabilities, and represented by the equivalent of the asset stake of the following elements: [Executive Decree 13/144]

- \* **State values:** they are: treasury bonds, treasury deposits, as well as bonds issued by the state or guaranteed. The representation of obligations codified by state values must be at least 50%, half of which should be represented by medium- and long-term values.

- \* **Other movable values and similar bonds issued by bodies that meet the conditions of ability to meet:** consists of both bonds, liabilities issued by insurance companies or reinsurance companies and other financial institutions approved in Algeria; bonds and liabilities issued under the agreements Government, for insurance or reinsurance companies not residing in Algeria;

- \***Real estate assets:** Among them are both built-up real estate and land ownership in Algeria that are not restricted by in-kind rights, and other real estate rights in Algeria.

**\*Other employments:** the cash market, deposits with the concessioners, deposits to the bank, and any other type of employment determined by the applicable legislation and regulation.

Table 1 shows the financial employment of insurance companies by category under Executive Decree 13-114. [see table 2 in appendix p 7]

#### **Comment:**

Table number above shows the financial employment of insurance companies by category, where we find that the majority of employments were directed in the form of state values, which were in the height of the study period from 42% in 2013 to 55% in 2017. Due to the compulsory employment in this category according to Executive Decree No. 13.1 14, which specified that 50% of the financial employment of insurance companies be represented in the values of the state. Moreover, this percentage only reflects the savings of insurance companies in the local economy, which is directed to serve various economic projects. The use of funds in the form of term deposits is second because they are guaranteed and yield interest at a certain rate, and they contribute to the financing of the national economy by saving these funds in banks that are reinvesting them and stimulating the movement of the national economy. The table also shows that insurance companies employ a significant portion of their funds in the form of real estate at a rate of between 13 and 15% throughout the years of study; this is due to the importance of investing in real estate and its financial returns. The financial employment sought in the form of movable values and deposits with the decliners remains lower than the rest of the employment, and this is due first to the values transferred because it has a reflection on the reality of the Algerian stock exchange. As the percentage of employment sought in the form of movable values described in the table is due to the activity of a company Allianz Insurance is the only listed insurance that is reflected in the lack of recruitment guidance in this category. Deposits with assignors represent the deposits deposited by insurance companies as reinsurers with other insurance companies to meet the obligations arising from the assigned contracts.

### **3.2. Insurance and GDP**

In this element, the focus will be on the penetration rate, the economic importance of the local insurance industry is usually assessed by the ratio of total written domestic premiums to GDP (penetration rate). Although this measure does not give a complete, picture of the insurance output, because of the high variation in premium rates between different countries, it has the advantage of not being affected by currency factors [j.françois outreville, 2002,65]. In addition, on this basis will show [see table 2 in appendix p 8] the evolution of the penetration rate in the Algerian economy from 1970 to 2017 and compare it to the rate of insurance penetration in the economies of the most important countries the world's leading insurance company.

#### **Comment:**

The table shows the insurance penetration rate of the world's top 10 countries in the insurance field according to the data provided in sigma reports for 2015 so that these leading insurance countries contribute 78% of the world's total non-life insurance, and 76% of total insurance. Life and the

table we find that the United States of America ranks first with a market share of more than 37% according to the reports of sigma.

The average ratio of total premiums to GDP per sample was 7.66 in 2015, and the insurance penetration rate for the United States, Canada, and most other developed countries was over 6%, rising significantly in almost all countries from 1970 to 2015.

At the beginning of 1990, the penetration rate for the majority of developed and emerging countries exceeded 8%, specifically in Japan and South Korea, where insurance growth was very impressive, while in Algeria, this rate remained very low, which is reflected in our economic situation.

#### 4. (Results and their discussion)

By examining the role of insurance market activity in promoting the growth of the economy, the following results were reached:

The higher the demand for insurance, the greater the economic growth to increase the savings and investment factories, once the insurance contract is signed between the insured and the insured, the insured or the insurance company is obliged to pay compensation for the duration of the contract, hence a portion of the premiums collected to pay compensation. The risks that occurred during the fiscal year, as well as the expenses necessary for the company's insurance activity and the remaining part of the insurance companies, are technical allocations or reserves as an obligation imposed by the State in order to guarantee the rights of the insured. Moreover, through these allocations finance the various investments that are represented in the financial market, real estate, a percentage of these allocations are directed to the purchase of public treasury bonds, for which the insurance company receives a certain interest rate. In return, the State (public treasury) invests these amounts in the necessary infrastructure, facilities, and base structures. Come, which is reflected in the actual demand for the purchase of insurance policies in the presence of insurance sense. In addition, it necessarily leads to higher insurance production and higher technical provisions for insurance and thus the rise of savings and investment workers such as the above, which is reflected again in GDP Per capita national income.

The insurance penetration rate has remained very low and at its lowest level in the Algerian economy throughout the years of study compared to other economies.

Based on the above, the problem of the study can be answered by the fact that the activity of the Algerian insurance market does not play its main role in increasing economic growth. We have found that the higher the risk insurance companies, the higher the rate of domestic savings, which is mainly in the form of financial employment in the form of state values. However, these employments are limited to the latter, and we can say that the more the company has diversified its investments, the more it helps it achieve a higher return and the more it reflects. That is in our economic situation.

#### 5. Appendices:

**Table 01: Financial employment of insurance companies by 2014-2017**

**Unit: 1 million Algerian dinars**

Investments	the year 2014		2015		2016		2017	
	the amount	%	the	%	the amount	%	the amount	%

			amount					
State values	94800	42	113431	45	138959	52	149981	55
Movable values	19760	9	20915	8	24356	9	22647	8
Term deposits	69885	31	69960	28	46454	17	45804	17
Deposits with assignors	10189	5	12514	5	12673	4	12411	4
Total financial investments	194634	87	216820	86	222442	83	230843	84
Fixed Assets (Real Estate)	29255	13	35447	14	42918	16	43032	15
Total	223889	100	252267	100	265360	100	273875	100

**Source:** Prepared by the student based on financial reports (2013-2017)

**Table 02: Penetration rate: 1970 to 2015 (10 leading insurance countries in the world and Algeria)**

	1970	1980	1990	2000	2010	2015
<i>Hello. What</i>	6.8	7.0	8.8	8.7	8	7.28
<i>China</i>	- Hey.	- Hey.	0.8	1.6	3.8	3.57
<i>Germany</i>	4.1	4.5	5.0	6.4	7.2	6.24
<i>Japan</i>	3.9	6.6	10.8	11.3	10.1	10.82
<i>United kingdom</i>	5.4	5.3	9.2	16.2	12.4	9.97
<i>France</i>	3.3	3.6	2.5	5.7	8.1	8.68
<i>Canada</i>	- Hey.	- Hey.	4.7	6.7	4.9	7.4



<i>Netherlands</i>	4.9	5.8	7.6	9.5	12.4	10.72
<i>Korea</i>	1.1	2.4	9.8	11.1	11.2	11.42
<i>Italia</i>	- Hey.	- Hey.	4.7	6.7	4.9	7.4
<i>Algeria</i>	- Hey.	1.1	1.0	0.5	0.8	0.82

**Source:** Prepared by the student based on sigma 2015 reports, and for the rest of the years on an article: Jean François Outreville, insurance services: measuring their role and adding value, J, Stor publications, 2012, p65-66.

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